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In the Matter of)	
)	
Access Charge Reform for Incumbent)	CC Docket No. 98-77
Local Exchange Carriers Subject to)	
Rate-of-Return Regulation)	(FCC 98-101)

Comments of John Staurulakis, Inc.

**In response to June 4, 1998 Notice of Proposed Rulemaking,
FCC 98-101, in which the Commission seeks comments
related to Access Charge Reform for
Rate-of-Return Local Exchange Carriers**

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Summary

The primary objective of this Notice of Proposed Rulemaking is to determine the applicability of the access charge reform for rate-of-return local exchange carriers (LECs) that mirrors the access charge reform adopted by the price-cap LECs as a result of the Federal Communications Commission (Commission) Access Charge Reform Order, CC Docket No. 96-262, May 16, 1997.

The evidence reviewed by JSI strongly suggests that the significant cost differences that exist between price-cap LECs and rate-of-return LECs precludes the attainment of the FCC's primary objective for access reform: Fostering an efficient, competitive marketplace by, among other things, ensuring that non-traffic sensitive costs are recovered in a manner that better reflects how these costs are incurred.

JSI concludes, based on its analysis— which overlays the provisions of price-cap-type reform on the National Exchange Carrier Association's Tariff FCC No. 5 cost and demand elements — that applying such a standard to rate of return LECs will result in subscriber line charges (SLCs) and presubscribed interexchange carrier charges (PICCs) that, if implemented, far exceed those of price-cap LECs, and JSI believes violate the Universal Service provisions of the Telecommunications Act.

While JSI has reviewed a number of other alternatives to mitigate the obvious problems created by the adoption of full price-cap-type reform by rate-of-return LECs, these alternatives also appear to be of limited value. Therefore, JSI concludes that the most prudent course for the Commission to take in this proceeding is to refrain from specific action affecting rate-of-return LECs until it has considered and implemented

comprehensive Universal Service reform. Alternatively, if the Commission deems that, at least some immediate action is warranted for rate-of-return LECs, JSI recommends that the Commission adopt provisions of price-cap reform, but freeze the non-primary and multiline business line SLCs at their current levels, cap the PICCs at the nationwide average rate level for price-cap LECs, and eliminate the line port, residual TIC and marketing cost transfers to the common line element.

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COMMENTS OF JOHN STAURULAKIS, INC.

John Staurulakis, Inc. ("JSI") hereby files these comments in response to the *Notice of Proposed Rulemaking* ("Notice" or "NPRM") pertaining to the above referenced matter. In the Notice, the Commission requests comments regarding the applicability of the rate structure developed in the *Access Charge Reform Order*, CC Docket No. 96-262, May 16, 1997 ("Order" or "Price-Cap Order") for Local Exchange Carriers ("LECs") subject to rate-of-return regulation. One objective of the Notice is to gather evidence showing if "differences exist between price-cap LECs and rate-of-return LECs that [would] require different rules to achieve the goals of fostering an efficient, competitive marketplace."¹ In these comments, JSI addresses the potential impact on rates that will result if the provisions established in the Order are applied to rate-of-return LECs.

JSI is a consulting firm specializing in financial and regulatory services to more than two hundred Incumbent Local Exchange Carriers ("ILECs") throughout the United

¹ *Notice of Proposed Rulemaking*, FCC 98-101, CC Docket No. 98-77, June 4, 1998, paragraph 3.

States. JSI assists these ILECs in the preparation and submission of jurisdictional cost studies and Universal Service Fund (USF) data to the National Exchange Carrier Association ("NECA"), and routinely prepares and files tariffs with the Federal Communications Commission ("Commission" or "FCC") on behalf of a number of these ILECs. Since the Notice seeks comments on issues affecting our clients in these matters, JSI is an interested party in this proceeding.

I. Introduction

In these comments, JSI will present evidence of the significant cost differences between price-cap LECs and rate-of-return LECs. In addition, JSI will show that even the adoption of various alternatives to the proposed mechanisms does not ensure adequate safeguards for rate-of-return LECs. Thus, JSI recommends that the most prudent course for the Commission to take in this proceeding is to refrain from specific action affecting rate-of-return LECs until it has considered and implemented comprehensive Universal Service reform. JSI believes such a course is consistent with Chairman Kennard's public statements regarding the Commission's intent to take into account the unique characteristics of rural telephone companies and the geographic areas they serve.² In addition, this approach appears consistent with the Commission's decision to separate rural, rate-of-return LECs from price-cap requirements resulting from its continuing efforts to implement provisions of the Act.

² Remarks by William Kennard, Chairman, Federal Communications Commission to USTA's Inside Washington Telecom, April 27, 1998.

If, however, the Commission determines that some immediate action is warranted for rate-of return LECs; *i.e.*, it opts to impose some portion of access charge reform for these companies, JSI urges that it consider alternative measures presented in these comments.

JSI recommends that if the Commission adopts specific provisions of price-cap access reform, that it:

- 1. Freeze the non-primary and multiline business line subscriber line charges (SLCs) at their current levels;***
- 2. Cap the presubscribed interexchange carrier charge (PICC) rates at the nationwide average price-cap LEC rate levels, and***
- 3. Eliminate the line port, residual TIC, and marketing transfers to common line.***

Further, JSI contends that these measures must be taken together; relying on any of the individual alternatives alone for rate-of-return LECs will not meet the comparable and reasonable standards required by the Act.

II. Effects of proposed price-cap-type access reform on rate-of-return LECs

The objective of the NPRM is to evaluate the advisability of requiring price-cap-type access reform for rate-of-return LECs.³ Our analysis suggests that because of the unique cost characteristics of rate-of-return companies compared with those of price-cap

³ As discussed later in these comments and detailed in Attachment A, price-cap-type access reform refers to the changes adopted by the larger incumbent LECs as a result of the Price-Cap Order. It primarily includes imposition of higher SLC levels for non-primary and multiline business lines, imposition of PICCs, transfer of the switch line port and residual TIC to common line, the direct assignment of trunk port costs, and the reallocation of certain marketing and GSF costs to other rate elements.

companies, these reforms will not achieve the stated objective of replacing the traffic-sensitive carrier common line (CCL) rate element with non-traffic sensitive (NTS) cost recovery mechanisms.

While price-cap companies will be able to eliminate the usage-sensitive CCL rate over a short period of time,⁴ the analysis performed by JSI suggests that rate-of-return LECs would not be able to eliminate the CCL in the foreseeable future. Furthermore, if the same measures were instituted for rate-of-return companies, the NTS SLC and PICC would increase each year to levels that JSI contends would be unacceptable by any measure. Further, the composite traffic-sensitive rate would still be substantially higher than price-cap companies.⁵ The information reported in Table 1 provides the applicable rates for rate-of-return LECs in the foreseeable future if price-cap-type reform were imposed on LECs that participate in the NECA common line and traffic sensitive pools.⁶

⁴ In some instances, the CCL has already been completely eliminated by price-cap companies. Based on July 1, 1998 tariff information, all but one RBOC eliminated CCL rates.

⁵ JSI has performed analysis on rate-of-return LECs based upon information provided by NECA. This information is representative of all rate-of-return LECs insofar as those in the NECA pool reflect all rate-of-return LECs.

⁶ A summary of the assumptions used in the JSI analysis is contained in Attachment A.

Table 1
Effect of Price-Cap-Type Reform on NECA rates:
SLC and PICC rates increasing annually until CCL is eliminated

	Current Year	July, 1999	July, 2000	July, 2002	July, 2004	July, 2006	July, 2008
Access Charges*							
Carrier Common Line (Orig = Term)	\$0.0109	\$0.0243	\$0.0249	\$0.0177	\$0.0113	\$0.0049	\$0.0000
Total Traffic Sensitive	0.0358	0.0141	0.0142	0.0143	0.0143	0.0143	0.0143
Composite Switched Access	0.0467	0.0384	0.0391	0.0320	0.0256	0.0193	0.0413
SLC Charges							
Primary Line Residence, Single Line Business	3.50	3.50	3.50	3.50	3.50	3.50	3.50
Non-Primary Line Residence	3.50	5.00	6.50	9.00	9.00	9.00	9.00
Multiline Business	6.00	9.00	9.00	9.00	9.00	9.00	9.00
PICC Charges							
Primary Line Residence, Single Line Business	-	0.53	1.03	2.03	3.03	4.03	5.05
Non-Primary Line Residence	-	1.50	2.50	4.50	6.50	8.50	10.50
Multiline Business	-	2.75	4.25	7.25	10.25	13.25	14.41

NOTE: Growth rates for minutes, cost, and access lines are assumed to be zero for baseline scenarios. Rates are not adjusted for inflation. If growth were taken into consideration with rates similar to those proposed by NECA, the results are not materially altered. Under this growth scenario, it would require eight instead of ten years for the CCL to be eliminated, while the non-primary residential line SLC would equal \$9.00 and the PICC would equal \$7.50. For display purposes we have not shown rates that would be in effect for the odd numbered years after 2000.

*For simplicity and comparison purposes, the access charges do not reflect direct trunk transport rate elements; nor do we display the disparate CCL rates which result from the FCC's rules when the CCL is above \$0.01. See Attachment A for the separate originating and terminating CCL rates.

JSI believes that the existence of a CCL rate for the foreseeable future is strong evidence that the proposed price-cap-type access charge reform fails to achieve the FCC's intended objective to drive this rate to zero in the near future. The failure to eliminate the CCL is caused by significant differences in the cost characteristics between rate-of-return LECs and price-cap LECs. The CCL is not eliminated earlier than 2008 because the SLC and PICC rate annual increases are limited according to the price-cap reform measures. In fact, our analysis reveals that the CCL will increase in the near-term, as the SLC and PICC increases are limited on an annual basis. Table 1 also shows SLC charges for non-primary residential lines at \$9.00 per month in 2002, and the PICC

would equal \$10.50 per month in 2008. In the context of comparisons with the price-cap companies, these large SLC and PICC differentials are dramatic and unsustainable.⁷

JSI believes that the continuation of the CCL and the significant disparity between the SLC and PICC levels for price-cap LECs and those rate-of-return LECs represent sufficient evidence that rate-of-return LEC costs are significantly different from those of price-cap LECs and warrant different rules for access reform. The application of price-cap access reform perpetuates an environment that fails to promote competitive parity between price-cap-type and rate-of-return LECs. JSI suggests that such "reform" is neither efficient nor necessary. JSI is aware of the Commission's objective to develop regulation that achieves goals of "cost-causation" and "economic efficiency"; however, the proposed application for rate-of-return LECs does not achieve these goals, and should not be viewed in isolation of other proceedings before the Commission, such as universal service.⁸

To reiterate, the reasons behind the continued existence of these dramatic differences in cost recovery result from the fundamentally different cost levels and characteristics between price-cap companies and rate-of-return companies. For instance, the proposed reform suggests that the line port and associated NTS costs be transferred

⁷ The nationwide average SLC for price-cap companies is to equal \$3.50 for primary line and single line business, \$4.99 for non-primary residence and \$7.15 for multiline business. The PICC for the same access line types are \$0.53, \$1.38 and \$2.51 respectively. *Trends in Telephone Service*, FCC, July 1998, Table 1.3

⁸ The Price-Cap Order, at paragraph 125 states that NTS costs associated with local switching should be recovered on a flat-rated, rather than usage-sensitive, basis. The increases in the SLC and establishments of PICC for price-cap LECs achieved this result. For rate-of-return LECs, this result is unattainable in the foreseeable future.

from local switching to common-line. JSI's analysis of the line port and associated costs for a sample of rate-of-return companies shows that these transfers amount to 53 percent of the total local switching cost.⁹ This percentage is slightly higher than that previously reported by the United States Telephone Association ("USTA") in its comments.¹⁰ However, JSI's percentage is significantly higher than the 37 percent that NECA has projected. NECA has acknowledged that its estimate is based upon Bellcore data related to a single manufacturer and only examines its host switch characteristics. Thus JSI doubts the reliability of the percentage reported by NECA.¹¹

At minimum, JSI's investigation provides clear evidence that further study in this area is warranted due to the significant potential impact of such a change on rate-of-return LECs. The transfer that results from the line port and associated costs is a large portion of the common-line revenue requirement and its associated residual CCL reported in Table 1.

Another reason for the difference in potential impact on rate-of-return LECs is the transfer of the residual Transport Interconnection Charge ("TIC") to the common-line rate. The residual TIC transfer, according to NECA numbers, is also large for rate-of-return LECs and contributes to ever-increasing PICC rates for the foreseeable future.

The effects of these two large additions to common-line lead to a movement of costs from one set of traffic-sensitive recovery mechanisms (local switching and TIC) to

⁹ The costs related to this determination of 53 percent include those identified in the Price-Cap Order as the "costs of the line side port (including the line card, protector, and main distribution frame)." Price-Cap Order, at 125

¹⁰ USTA reports that 51 percent of the costs of a digital switch are NTS. Price-Cap Order, at 131.

¹¹ A description of the specific method used to determine actual port costs is located in Attachment B.

another traffic-sensitive mechanism (CCL). JSI submits that this is not access reform.

The information in Table 1 provides evidence that the efficiency of the proposed reform is questionable and should not be adopted as proposed.

III. Full Price-Cap-Type Access Reform Imposed on Rate-of-Return LECs Violates the Reasonable and Comparable Mandate of the Act

The proposed rules will create substantial differences between consumer prices applicable to price-cap and rate-of-return LECs. The Telecommunications Act of 1996 (“Act”) requires that rates should be reasonably comparable between urban and rural areas. Since several provisions of the Act address reasonable and comparable rates, JSI considers it appropriate to review the statutory language. The Universal Service principles established by Congress mandate that the Commission must base policies for the preservation and advancement of universal service on the premises that: “quality services should be available at just, reasonable, and affordable rates” (Section 254(b)(1)); “consumers in all regions of the Nation, should have access to telecommunications and information services” and that the rates for these services should be “reasonably comparable to rates charged for similar services in urban areas” (Section 254(b)(3)). Section 254(i), entitled “Consumer Protection,” states that the “Commission and the States should ensure that universal service is available at rates that are just, reasonable and affordable.” JSI has concerns that the adoption of full price-cap-type access reform by rate-of-return LECs is in conflict with these provisions in the Act.

Given the evident cost characteristics of NECA pool members, the application of disparate SLC and PICC rates for these LECs would not appear to support this reasonable

comparability requirement. JSI does not believe the potential of a \$9.00 SLC and \$10.50 PICC on non-primary residential customers meets the objective of the just, reasonable, and affordable standards established in the Act.¹² JSI compares the SLC and PICC charges that may result in 2008 in Table 2.

Table 2

Comparison of Price-Cap and Rate-of-Return LEC SLC and PICC in Year 2008

	Year 2008	
	Price-Cap LECs	Rate-of-Return LECs
SLC Charges		
Primary Line Residence, Single Line Business	\$3.50	\$3.50
Non-Primary Line Residence	\$7.14	\$9.00
Multiline Business	\$7.14	\$9.00
PICC Charges		
Primary Line Residence, Single Line Business	\$2.15	\$5.05
Non-Primary Line Residence	\$0.00	\$10.50
Multiline Business	\$0.00	\$14.41

The RBOC PICC amount reported in Table 2 is only applied to primary line residence and single line business lines. The Order states that once the CCL is eliminated, non-primary line residence and multiline PICC rates are to be transferred to the primary and single lines subject to allowable annual increases.

JSI believes that the significant consumer price differences which are forecasted to exist between price-cap LECs and rate-of-return LECs is ample demonstration of the potential violation of the provisions of the Act.

¹² JSI acknowledges that the PICC rates are to be applied to IXC's. Recent evidence suggests that the IXC's will pass on these charges to the end-user customers of rate-of-return LECs – frequently at rates higher than those charged by the LECs. Thus, in actuality, the PICC appears as a second SLC to the end user. Therefore, the reasonableness and comparability standards must apply to SLC and PICC rates.

IV. Alternatives to Full Price-Cap-Type Access Reform for Rate-of-Return LECs

a. Adopt price-cap-type reform, but cap the SLC and PICC rates at average price-cap rate levels

If the Commission determines that it is in the public interest for rate-of-return LECs to adopt some form of access reform now, rather than wait for comprehensive universal service reform, one approach that could be evaluated would be to follow-price-cap-type reform, but cap the SLC and PICC rates at an appropriate average rate level.¹³ In accordance with how rate-of-return LECs have traditionally addressed comparability issues, JSI recommends that if this approach is employed, that the appropriate cap for SLC and PICC rates for rate-of-return companies should be based on the nationwide average of price-cap LECs' SLC and PICC rates.

At a minimum, the FCC should consider capping the rate-of-return LECs' SLC and PICC rates at the RBOC nationwide average. In addition, consistent with the FCC's objectives for price-cap LECs, the multiline business and non-primary residential line PICC rate elements should be eliminated for rate-of-return LECs.¹⁴ The impact on access rates of limiting the SLC and PICC rates for rate-of-return LECs is presented in Table 3.¹⁵

¹³ While, at minimum, JSI believes that an absolute cap should apply to both SLCs and PICCs, as further discussed in Section 4c below, JSI believes that it would be preferable to freeze the current SLCs for rate-of-return LECs until the FCC undertakes comprehensive Universal Service reform for rate-of-return LECs.

¹⁴ Price-Cap Order, at 102.

¹⁵ JSI investigated the total multiline PICC revenues under a price-cap PICC-cap plan and distributed this amount to the single-line PICC rates. This action is intended to demonstrate what the single-line PICC charges would likely be in the future. The movement of these PICC revenues does not change the composite traffic-sensitive rate.

Table 3
Effect of Price-Cap-Type Reform on NECA rates:
SLC and PICC rates capped at Price-Cap Levels **

	Current Year	July, 1999	July, 2000	July, 2002	July, 2004	July, 2006	July, 2008
Access Charges*							
Carrier Common Line (Orig = Term)	\$0.0109	\$0.0261	\$0.0283	\$0.0287	\$0.0271	\$0.0271	\$0.0271
Total Traffic Sensitive	0.0358	0.0141	0.0142	0.0143	0.0143	0.0143	0.0143
Composite Switched Access	0.0467	0.0402	0.0426	0.0431	0.0414	0.0414	0.0414
SLC Charges							
Primary Line Residence, Single Line Business	3.50	3.50	3.50	3.50	3.50	3.50	3.50
Non-Primary Line Residence	3.50	5.00	6.00	7.15	7.15	7.15	7.15
Multiline Business	6.00	7.15	7.15	7.15	7.15	7.15	7.15
PICC Charges							
Primary Line Residence, Single Line Business	-	1.28	1.78	1.53	2.03	2.03	2.03
Non-Primary Line Residence	-	-	-	-	-	-	-
Multiline Business	-	-	-	-	-	-	-

Growth rates for minutes, cost, and access lines are assumed to be zero for baseline scenarios. Rates not adjusted for inflation.

Including growth results in a less than \$0.01 reduction in the composite switched access rate in 2008. Caps for SLC and PICC are computed from Trends in Telephone Service, FCC, July 1998.

* For simplicity and comparison purposes, the access charges do not reflect direct trunk transport rate elements; nor do we display the disparate CCL rates which result from the FCC's rules when the CCL is above \$0.01. See Attachment A for the separate originating and terminating CCL rates.

** Price-cap-type access reform assumes CCL rates will be driven to zero, and thereafter non-primary residential lines and multiline business PICC rates will be absorbed in the primary-line residence and single-line business PICC. The table reflects this absorption by reporting a single-line composite PICC that includes the total revenues required under existing price-cap rules.

Our analysis suggests that the consequence of dramatic cost differences between rate-of-return companies and price-cap companies is the reason for the high CCL for rate-of-return companies. Furthermore, these cost differences result in a composite switched access rate in 2008 that is a mere 12 percent less than the current rate.¹⁶ The effect of a doubling of the CCL for rate-of-return companies and a nearly equal composite switching rate leads JSI to doubt the efficacy of the proposed reform with a required modification

¹⁶ Under the NECA-type growth scenario, the composite switched access rate could be lower by 30 percent. However, the composite switched access rate would still be at \$0.0326 in 2008.

for comparable PICC and SLC rates between the price-cap LECs and rate-of-return LECs.

b. Adopt price-cap-type reform, but eliminate transfers to Common Line, while capping the SLC and PICC rates at average price-cap rate levels

Price-cap reform contemplated a transfer of the line port, residual TIC, and marketing costs from various traffic-sensitive rate elements to common line. These transfers are based on the expectation that these costs could be included in the SLC and PICC rates, thereby allowing the CCL to be reduced to zero in the near future. As is evident from the analysis presented in Table 3, this will not be the case for rate-of-return LECs. An alternative to full price-cap-type reform may be to cap the SLCs and PICCs (as reflected in 4a above) but also eliminate the transfers to common line.

The analysis reported in Table 4 reveals that regardless of whether these transfers are made, the composite usage-sensitive, switched access charge rate level will not be altered. Table 4 reports the results when the SLC and PICC rates are at the nationwide average price-cap LEC rate levels and there are no transfers into the common-line recovery mechanism.

Table 4
Effect of Price-Cap-Type Reform on NECA rates:
SLC and PICC rates capped at Price-Cap Levels
No Transfers to Common Line Revenue Requirement

	Current Year	July, 1999	July, 2000	July, 2002	July, 2004	July, 2006	July, 2008
Access Charges							
Carrier Common Line (Orig = Term)	\$0.0109	\$0.0053	\$0.0077	\$0.0081	\$0.0065	\$0.0065	\$0.0065
Total Traffic Sensitive	0.0358	0.0349	0.0349	0.0349	0.0349	0.0349	0.0349
Composite Switched Access	0.0467	0.0402	0.0426	0.0431	0.0414	0.0414	0.0414
SLC Charges							
Primary Line Residence, Single Line Business	3.50	3.50	3.50	3.50	3.50	3.50	3.50
Non-Primary Line Residence	3.50	5.00	6.00	7.15	7.15	7.15	7.15
Multiline Business	6.00	7.15	7.15	7.15	7.15	7.15	7.15
PICC Charges							
Primary Line Residence, Single Line Business	-	1.28	1.78	1.53	2.03	2.03	2.03
Non-Primary Line Residence	-	-	-	-	-	-	-
Multiline Business	-	-	-	-	-	-	-

See Notes to Table 3 and Attachment A for assumptions.

These results are similar to those in Table 3, with one exception, some costs in Table 3 (those transferred to the common-line recovery mechanism) are reported in Table 4 under "Total Traffic Sensitive." So the extent of the proposed access reform with the modification for comparable SLC and PICC rates yields an identical composite traffic-sensitive rate with and without transfers. Similar to the results reported in 4a, we find that this alternative also fails to accomplish the Commission's desired intent.

c. Adopt price-cap-type reform, but eliminate transfers to Common Line, while freezing the SLC rates and capping the PICC rates at average price-cap LEC levels

The Commission should consider imposing a freeze on the SLC for non-primary residential lines and multiline business lines. The Commission received numerous

comments in the price-cap access charge reform proceeding that suggested this consideration.¹⁷

The primary rationale for proposing such a freeze is the potential impact that increases in non-primary residential and multiline business line SLCs will have on economic development in rural areas. JSI opposes increases in the SLC for non-primary residential lines and multiline business lines. Rural LECs typically have costs of such significance that SLC increases similar to those proposed for price-cap LECs will impose a particularly heavy and disproportionate burden on subscribers of rural telephone companies, and will negatively affect rural economic development in the areas these companies serve. Contrary to the FCC's conclusion that higher SLCs on non-primary residential and multiline businesses will have no effect on the number of access lines served by incumbent LECs, JSI believes that higher SLCs will drive customers to acquire additional lines from competitive LECs or seek other alternatives (i.e., bypass of LEC facilities and wireless are but two).

JSI has assessed the impact of a freeze of SLC charges and reports these results in Table 5. Comparing the results in Table 4 with those in Table 5, the impact from a SLC freeze amounts to an increase of only \$0.002 for the composite switched access charge in 2008. The negative consequences of maximum-level SLCs on rural economic development can be avoided by a small increase in the composite switched access charge.

¹⁷ For a summary of these comments, see FCC 97-158, May 16, 1997, paragraph 81.

Table 5
Effect of Price-Cap-Type Reform on NECA rates:
SLC rates frozen at current levels and PICC rates capped at Price-Cap Levels
No Transfers to Common Line Revenue Requirement

	Current Year	July, 1999	July, 2000	July, 2002	July, 2004	July, 2006	July, 2008
Access Charges							
Carrier Common Line (Orig = Term)	\$0.0109	\$0.0067	\$0.0093	\$0.0101	\$0.0085	\$0.0085	\$0.0085
Total Traffic Sensitive	0.0358	0.0349	0.0349	0.0349	0.0349	0.0349	0.0349
Composite Switched Access	0.0467	0.0416	0.0442	0.0451	0.0434	0.0434	0.0434
SLC Charges							
Primary Line Residence, Single Line Business	3.50	3.50	3.50	3.50	3.50	3.50	3.50
Non-Primary Line Residence	3.50	3.50	3.50	3.50	3.50	3.50	3.50
Multiline Business	6.00	6.00	6.00	6.00	6.00	6.00	6.00
PICC Charges							
Primary Line Residence, Single Line Business	-	1.28	1.78	1.53	2.03	2.03	2.03
Non-Primary Line Residence	-	-	-	-	-	-	-
Multiline Business	-	-	-	-	-	-	-

See Notes to Table 3 and Attachment A for assumptions.

JSI believes that it is in the public interest to consider a freeze on non-primary residential and multiline business line SLCs.

Recent studies confirm the interdependent relation between telecommunications investment and rural economic development.¹⁸ A specific investigation of rural areas in the United States concluded that economic development has proceeded at a much slower pace than in urban areas and that telecommunications investment and consumer use increases economic development in rural areas at a faster pace than in urban areas.¹⁹ A significant, but obvious, finding in the recent studies on telecommunications in rural areas is that “rural customers paid lower prices for local service, but have fewer access lines in their local calling areas. Overall, rural customers paid more as a percentage of

¹⁸ Telecommunications infrastructure and economic growth: An analysis of causality, Cronin, Parker, Collieran and Gold, *Telecommunications Policy*, 1991, page 529-535.

¹⁹ The rural economic development implications of telecommunications: Evidence from Pennsylvania, Cronin, McGovern, Miller and Parker, *Telecommunications Policy*, 1995, page 545-559.

their household income for these services than did urban subscribers.”²⁰ Moreover, the total cost for telecommunications in rural areas is even larger than in urban areas because of the consequent increase in intrastate toll usage due to limited calling scope in rural areas.

The suggestion to increase the rural telecommunications payment for local service with increases of SLC and PICC charges will cause an even greater incomparability of telecommunications consumer costs between rural and urban areas.

If the Commission finds that some action is necessary at this time to serve the public interest, the proposal to freeze SLC rates at current levels must be given consideration in light of the evidence on rural economic development presented in these comments.

V. Conclusion: JSI Recommendation for an Appropriate Alternative for Rate-of-Return LECs

The evidence presented in these comments begs the question: What is the purpose of access reform? JSI notes a comment made by Chairman Kennard on proposed Universal Service reform for the rate-of-return LECs. He stated that “if the system ain’t broke, don’t fix it.” It appears that achieving nearly comparable, composite traffic-sensitive rates, as is the case today, and imposing comparable SLC and PICC RBOC rates represents significant regulatory gymnastics with no substantive benefit.

²⁰ *Id.*

The effects of the proposals in the Notice lead us to pause and consider that the Commission's best and most efficient regulatory course may be refraining from specific action until comprehensive Universal Service reform is implemented. If the Commission determines that some form of access reform is required prior to the adoption of comprehensive universal service reform for rate-of-return LECs, JSI urges the Commission to adopt limiting measures.

JSI believes that the proposed reform is inefficient and will not meet the primary access charge reform objectives of the FCC. This result stems from the considerable differences in cost recovery of rate-of-return LECs when compared with their price-cap counterparts. Invoking price-cap access reform for rate-of-return LECs will result in rates that are not comparable across the nation – a requirement imposed by the Act. If the Commission determines that some form of access reform is in the public interest, JSI recommends that it freeze non-primary line residential and multiline businessline SLC rates at current levels, cap PICC rates at comparable rates, and eliminate transfers to the common-line.

Respectfully submitted,

John Staurulakis, Inc.

By: 
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Date: August 17, 1998

Attachment A

Summary of Assumptions for Tables 1-5

The results reported in Table 1-5 in these comments are based upon data received from NECA Access Reform Analysis that was submitted to the FCC in 1997 and recently revised by NECA. JSI disagrees with the magnitude of NTS line port costs as reported by NECA and as mentioned in the comments, JSI's found NTS line port costs to equal 53 percent of the current local switching support for rate-of-return LECs. Attachment B contains a summary of central office switch investment for line port costs.

JSI has omitted the estimates of growth in costs, minutes, or access line demand for its analysis. JSI believes that growth rates for the next 10 years are simple estimates and are not reliable for policy development. As noted in the comments, JSI examined the NECA growth effect for the forecast period and found that the composite switched access rate declines faster with growth than without growth. With NECA growth projections included in the analysis, the CCL is eliminated in 2006, rather than 2008. Under the recommended alternative reforms, the composite switched access rate in 2008 is at \$0.0348. JSI claims that even with the inclusion of growth in the analysis, the problems identified in these comments are still valid. JSI also believes that the NECA growth forecasts for access lines and minutes are optimistic for a ten-year forecast – thus, it is optimistic to believe that the rate-of-return LECs can “grow” out of any cost difficulties. We have provided a baseline scenario where cost and demand for access lines and minutes of use are not adjusted for growth or inflation.

Data obtained from NECA TS pool members was extrapolated to reflect the CL revenue requirements based upon factors obtained by NECA. Supporting detail for Tables 1, 3 and 4 are included in Attachment A. The format for these tables follow the NECA worksheets submitted to the FCC in 1997. In each supporting table, the odd-numbered years after 2000 have been omitted for presentation purposes only.

Rate-Based Rate-of Return Company Access Reform
Support for Table 1*

	Current Year	July, 1999	July, 2000	July, 2002	July, 2004	July, 2006	July, 2008
CL Revenue Requirement							
CL Revenue Requirement (w/o contr & Mktg)	1,231,583,650	1,231,583,650	1,231,583,650	1,231,583,650	1,231,583,650	1,231,583,650	1,231,583,650
+ New HC/LL -- 3.14% x (SLC + Spcl*25%*Mkrdup)	14,731,000	14,731,000	14,731,000	14,731,000	14,731,000	14,731,000	14,731,000
+ New HLTH/EDU -- 0.75% x 1997 EU Retail	34,517,000	34,517,000	34,517,000	34,517,000	34,517,000	34,517,000	34,517,000
+ Non Rural Universal Service Contribution - Early Estimate			22,759,395	22,759,395	22,759,395	22,759,395	22,759,395
+ Common Line Marketing Expenses	13,517,000	13,517,000	13,517,000	13,517,000	13,517,000	13,517,000	13,517,000
+ TS Mktg Exp -- Marked-Up to CL Pool Membership	-	8,876,807	8,876,807	8,876,807	8,876,807	8,876,807	8,876,807
+ Line Port = 53%(LS Rev Req-LS Support) Marked Up	-	302,397,468	302,397,468	302,397,468	302,397,468	302,397,468	302,397,468
+ TIC Residual (TS mom 151712947,mkup 1.893)	-	287,192,609	283,913,376	280,634,145	280,634,145	280,634,145	280,634,145
- Special Access Surcharge	505,200	505,200	505,200	505,200	505,200	505,200	505,200
- Long Term Support	472,444,107	472,444,107	371,509,919	371,509,919	371,509,919	371,509,919	371,509,919
New Total CL Revenue Requirement	821,399,343	1,419,866,226	1,540,280,577	1,537,001,346	1,537,001,346	1,537,001,346	1,537,001,346
DEMAND							
Total Residence & Business Lines							
Primary Line Residence	6,791,208	6,791,208	6,791,208	6,791,208	6,791,208	6,791,208	6,791,208
LifeLine Residence	57,210	57,210	57,210	57,210	57,210	57,210	57,210
Single Line Business	1,144,224	1,144,224	1,144,224	1,144,224	1,144,224	1,144,224	1,144,224
Non-Primary Line Residence	679,121	679,121	679,121	679,121	679,121	679,121	679,121
Multiline Business	1,988,484	1,988,484	1,988,484	1,988,484	1,988,484	1,988,484	1,988,484
Total Residence & Business Lines	10,660,247	10,660,247	10,660,247	10,660,247	10,660,247	10,660,247	10,660,247
SLC Charges Analyzed							
Primary Line Residence	3.50	3.50	3.50	3.50	3.50	3.50	3.50
LifeLine Residence	3.50	3.50	3.50	3.50	3.50	3.50	3.50
Single Line Business	3.50	3.50	3.50	3.50	3.50	3.50	3.50
Non-Primary Line Residence (to be calculated)	-	-	-	-	-	-	-
Multiline Business	6.00	9.00	9.00	9.00	9.00	9.00	9.00
PICC Charges Analyzed							
Primary Line Residence	-	0.53	1.03	2.03	3.03	4.03	5.05
LifeLine Residence	-	0.53	1.03	2.03	3.03	4.03	5.05
Single Line Business	-	0.53	1.03	2.03	3.03	4.03	5.05
Non-Primary Line Residence	-	1.50	2.50	4.50	6.50	8.50	10.50
Multiline Business	-	2.75	4.25	7.25	10.25	13.25	14.41
Total SLC Revenue excluding Non-Primary Line	478,861,812	550,447,236	550,447,236	550,447,236	550,447,236	550,447,236	550,447,236
Total PICC Revenue	-	128,677,353	220,575,369	404,371,401	588,167,433	771,963,465	913,209,042
Total Annual Recurring Revenue (SLC x/Non Pr+ PICC)	478,861,812	679,124,589	771,022,605	954,818,637	1,138,614,669	1,322,410,701	1,463,656,278
New Adjusted CCL Rev Req (CL Rev Req- Monthly Revenues)	342,537,531	740,741,637	769,257,972	582,182,709	398,386,677	214,590,645	73,345,068
SLC Non Primary Line Residence	3.50	5.00	6.50	9.00	9.00	9.00	9.00
SLC Revenues for Non Primary Line Residence	28,523,082	40,747,260	52,971,438	73,345,068	73,345,068	73,345,068	73,345,068
Net New Adjusted CCL Rev Req- SLC Rev. for Non Primary	314,014,449	699,994,377	716,286,534	508,837,641	325,041,609	141,245,577	-
CCL Chargeable MOUs							
Originating	13,321,821,799	13,321,821,799	13,321,821,799	13,321,821,799	13,321,821,799	13,321,821,799	13,321,821,799
Terminating	15,446,853,734	15,446,853,734	15,446,853,734	15,446,853,734	15,446,853,734	15,446,853,734	15,446,853,734
Total MOUs	28,768,675,533	28,768,675,533	28,768,675,533	28,768,675,533	28,768,675,533	28,768,675,533	28,768,675,533
NEW CCL RATE/MOU (Orig = Term)							
NEW CCL RATE/MOU (Orig = Term)	0.01092	0.024332	0.024898	0.017687	0.011298	0.004910	-
NEW CCL TERM RATE/MOU (If Orig = \$0.01)	0.01170	0.036692	0.037747	0.024317	0.012418	0.004910	-
Access Charges							
Carrier Common Line (Orig = Term)	0.010915	0.024332	0.024898	0.017687	0.011298	0.004910	-
Local Switching	0.019833	0.008142	0.008142	0.008142	0.008142	0.008142	0.008142
TIC	0.009983	-	-	-	-	-	-
Tandem Switched Transport	0.005108	0.005108	0.005108	0.005108	0.005108	0.005108	0.005108
Tandem Switching	0.000860	0.000860	0.000975	0.001090	0.001090	0.001090	0.001090
Total Traffic Sensitive*	0.035784	0.014111	0.014226	0.014341	0.014341	0.014341	0.014341
Composite Switched Access	0.046699	0.038442	0.039124	0.032028	0.025639	0.019251	0.014341

* Primary data source for this Table is the NECA Traffic Sensitive Pool Analysis

Rate-Based Rate-of Return Company Access Reform

Support for Table 3*

	Current Year	July, 1999	July, 2000	July, 2002	July, 2004	July, 2006	July, 2008
CL Revenue Requirement							
CL Revenue Requirement (w/o contr & Mktg)	1,231,583,650	1,231,583,650	1,231,583,650	1,231,583,650	1,231,583,650	1,231,583,650	1,231,583,650
+ New HC/LL -- 3.14% x (SLC + Spcl*25%*Mkrdup)	14,731,000	14,731,000	14,731,000	14,731,000	14,731,000	14,731,000	14,731,000
+ New HLTH/EDU -- 0.75% x 1997 EU Retail	34,517,000	34,517,000	34,517,000	34,517,000	34,517,000	34,517,000	34,517,000
+ Non Rural Universal Service Contribution - Early Estimate			22,759,395	22,759,395	22,759,395	22,759,395	22,759,395
+ Common Line Marketing Expenses	13,517,000	13,517,000	13,517,000	13,517,000	13,517,000	13,517,000	13,517,000
+ TS Mktg Exp -- Marked-Up to CL Pool Membership	-	8,876,807	8,876,807	8,876,807	8,876,807	8,876,807	8,876,807
+ Line Port = 53%(LS Rev Req-LS Support) Marked Up	-	302,397,468	302,397,468	302,397,468	302,397,468	302,397,468	302,397,468
+ TIC Residual (TS mem 148,248,360,mkup 1.893)		287,192,609	283,913,376	280,634,145	280,634,145	280,634,145	280,634,145
- Special Access Surcharge	505,200	505,200	505,200	505,200	505,200	505,200	505,200
- Long Term Support	472,444,107	472,444,107	371,509,919	371,509,919	371,509,919	371,509,919	371,509,919
New Total CL Revenue Requirement	821,399,343	1,419,866,226	1,540,280,577	1,537,001,346	1,537,001,346	1,537,001,346	1,537,001,346
DEMAND							
Total Residence & Business Lines							
Primary Line Residence	6,791,208	6,791,208	6,791,208	6,791,208	6,791,208	6,791,208	6,791,208
LifeLine Residence	57,210	57,210	57,210	57,210	57,210	57,210	57,210
Single Line Business	1,144,224	1,144,224	1,144,224	1,144,224	1,144,224	1,144,224	1,144,224
Non-Primary Line Residence	679,121	679,121	679,121	679,121	679,121	679,121	679,121
Multiline Business	1,988,484	1,988,484	1,988,484	1,988,484	1,988,484	1,988,484	1,988,484
Total Residence & Business Lines	10,660,247	10,660,247	10,660,247	10,660,247	10,660,247	10,660,247	10,660,247
SLC Charges Analyzed							
Primary Line Residence	3.50	3.50	3.50	3.50	3.50	3.50	3.50
LifeLine Residence	3.50	3.50	3.50	3.50	3.50	3.50	3.50
Single Line Business	3.50	3.50	3.50	3.50	3.50	3.50	3.50
Non-Primary Line Residence (to be calculated)	-	-	-	-	-	-	-
Multiline Business	6.00	7.15	7.15	7.15	7.15	7.15	7.15
PICC Charges Analyzed							
Primary Line Residence	-	1.28	1.78	1.53	2.03	2.03	2.03
LifeLine Residence	-	0.53	0.53	0.53	0.53	0.53	0.53
Single Line Business	-	1.28	1.78	1.53	2.03	2.03	2.03
Non-Primary Line Residence	-	-	-	-	-	-	-
Multiline Business	-	-	-	-	-	-	-
Total SLC Revenue excluding Non-Primary Line	478,861,812	506,302,891	506,302,891	506,302,891	506,302,891	506,302,891	506,302,891
Total PICC Revenue	-	121,972,585	169,585,177	146,058,387	193,670,979	193,670,979	193,670,979
Total Annual Recurring Revenue (SLC x/Non Pr+ PICC)	478,861,812	628,275,476	675,888,068	652,361,278	699,973,870	699,973,870	699,973,870
New Adjusted CCL Rev Req (CL Rev Req- Monthly Revenues)	342,537,531	791,590,750	864,392,508	884,640,068	837,027,476	837,027,476	837,027,476
SLC Non Primary Line Residence	3.50	5.00	6.00	7.15	7.15	7.15	7.15
SLC Revenues for Non Primary Line Residence	28,523,082	40,747,260	48,896,712	58,268,582	58,268,582	58,268,582	58,268,582
Net New Adjusted CCL Rev Req- SLC Rev. for Non Primary	314,014,449	750,843,490	815,495,796	826,371,486	778,758,894	778,758,894	778,758,894
CCL Chargeable MOUs							
Originating	13,321,821,799	13,321,821,799	13,321,821,799	13,321,821,799	13,321,821,799	13,321,821,799	13,321,821,799
Terminating	15,446,853,734	15,446,853,734	15,446,853,734	15,446,853,734	15,446,853,734	15,446,853,734	15,446,853,734
Total MOUs	28,768,675,533	28,768,675,533	28,768,675,533	28,768,675,533	28,768,675,533	28,768,675,533	28,768,675,533
NEW CCL RATE/MOU (Orig = Term)							
NEW CCL RATE/MOU (Orig = Term)	0.010915	0.026099	0.028347	0.028725	0.027070	0.027070	0.027070
NEW CCL TERM RATE/MOU (If Orig = \$0.01)	0.011704	0.039984	0.044169	0.044873	0.041791	0.041791	0.041791
Access Charges							
Carrier Common Line (Orig = Term)	0.010915	0.026099	0.028347	0.028725	0.027070	0.027070	0.027070
Local Switching	0.019833	0.008142	0.008142	0.008142	0.008142	0.008142	0.008142
TIC	0.009983	-	-	-	-	-	-
Tandem Switched Transport	0.005108	0.005108	0.005108	0.005108	0.005108	0.005108	0.005108
Tandem Switching	0.000860	0.000860	0.000975	0.001090	0.001090	0.001090	0.001090
Total Traffic Sensitive*	0.035784	0.014111	0.014226	0.014341	0.014341	0.014341	0.014341
Composite Switched Access	0.046699	0.040210	0.042572	0.043066	0.041411	0.041411	0.041411

* Primary data source for this Table is the NECA Traffic Sensitive Pool Analysis